Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 13, 1937

To Chairman Eccles

Subject:

From Mr. Goldenweiser

In connection with your Treasury meeting.

CONFIDENTIAL

Cc. 21
April 13, 1937

CURRENT COMMENTS

Excess reserves

Largely as a result of purchases of Government securities for System Account, excess reserves increased by $44,000,000 in the week ended April 7 and amounted to $1,440,000,000. In the current statement week ending April 14 a further substantial rise in excess reserves is anticipated. As payments for gold of about $90,000,000 are scheduled this week, it is expected that the Treasury balance with the Reserve banks will be drawn down to below $150,000,000, which has recently been the customary minimum.

Excess reserves of leading New York City banks now amount to about $500,000,000 and this total may be augmented by Treasury payments during this week. As the increase in requirements is about $310,000,000 for these banks, they would appear to be generally well prepared to meet the new requirements even with further withdrawals of bankers' balances.

Reporting member banks

Commercial loans increased by $84,000,000 at reporting member banks in leading cities during the two weeks ending April 7, while loans to brokers and dealers declined by $53,000,000. About half of the increase in commercial loans occurred in New York City, but there were also considerable increases in Chicago and in the Cleveland district.

Variations in holdings of United States Government obligations and in deposits during the past two weeks have reflected large shifts in Chicago around April 1, the date on which personal-property tax assessments are made. For the two-week period as a whole, holdings of U. S. Government direct obligations declined in New York by $80,000,000, in Chicago by nearly $60,000,000, and at other reporting banks by $40,000,000. Other securities at New York banks declined by $40,000,000. Adjusted demand deposits declined by $170,-000,000, reflecting decreases principally in New York and Chicago.

Commodity prices

During the past week prices of commodities traded in on organized markets have shown the sharpest decline since the beginning of the broad upward movement last autumn. The decline was general in both domestic and foreign markets, following sharp speculative advances in March. Domestic copper declined from 17 cents per pound to 15½ cents and prices of other nonferrous metals were reduced considerably. There were decreases also in the prices of steel scrap, cotton, silk, rubber, and wheat. Corn prices, however, continued to advance.

Cash wheat and May futures declined about 5 cents a bushel, following an advance of 10 cents during the previous month. The official estimate on the condition of winter wheat as of April 1 was in line with trade expectations and indicated a crop of 656,000,000 bushels, about 140,000,000 more than last season. The spring wheat crop is also expected to show a marked increase to about 260,000,000 bushels. The total crop in prospect is considerably in excess of domestic requirements and domestic prices of some grades are now adjusted to an export basis for the first time in four years.

Bond market

Treasury bond prices showed little change last week. Following an advance on Monday prices declined slowly through Thursday and then recovered by Saturday to about the level of the preceding week. At Saturday's close the average yield on Treasury bonds callable in more than eight years was 2.76 percent, as compared with the peak of 2.79 percent reached on April 1, and a low of 2.22 percent in December. The average yield on Treasury notes maturing in 3-5 years rose to a new high level of 1.70 percent on Thursday.

High-grade corporate bonds showed a generally downward tendency during the week and Moody's average of Aaa corporate issues closed with a yield of 3.48 percent, as compared with 3.42 percent on the preceding Saturday. Lower-grade corporate bonds declined even more substantially during the week, showing a yield of 4.92 percent, as compared with 4.85 percent a week earlier. Prices of municipal bonds also declined about 3/4 of a point; the declines of the past three weeks have been successively smaller in amount.

The volume of new security issues offered during the week was about $15,000,000, which is less than half of the amount of the preceding week.

Stock market

The stock market was more active during the week ending April 10 and the general level of stock prices declined for the week by reason of a sharp break on Wednesday which was shared by all major groups. This break was associated with declines in prices in organized commodity markets, which appear to have started in London, and with a widely publicized rumor to the effect that the Treasury would cut its buying price for gold. Official denials of this rumor were an important factor in the steadiness of the market towards the end of the week.

Prices of British stocks in London, after having shown little change for more than two weeks, declined on Friday. Reports from London indicate that British banks have been restricting credit accommodation not only to speculators in securities but also to traders in certain commodities for which prices have recently been irregular.

Foreign buying of American stocks

Foreign dealing in American stocks was somewhat irregular during the past week, with the week as a whole showing small net purchases. There were substantial net purchases on April 8, following the sharp break in American stock prices on the previous day, but net foreign sales were almost as large on the 9th. The French were net sellers on each day of the past week and have been buyers on only two days since March 27. The Dutch were also slightly on the selling side, while the British were fairly substantial buyers after having sold moderately in the previous week.

Gold movements

In the week ending April 10 reported monetary gold stock increased $52,000,000 to a total of $11,634,000,000. Known shipments of gold not yet added to the monetary stock amount to $66,000,000. Engagements during the week were comparatively small amounting to only $14,000,000. Practically all of this gold was engaged in London and is of Russian origin. Since the beginning of the year $45,000,000 of Russian gold has been added to our monetary stock.

RECENT FOREIGN EXCHANGE DEVELOPMENTS

The pound sterling and the French franc, after advancing steadily for several days, reached their highest quotations since early March on Tuesday, April 6. On Wednesday, however, the previous trend was reversed, and on Friday the franc fell sharply in this market to a low of 4.45 5/8 cents compared with 4.61 1/8 cents on Tuesday. Sterling and other leading currencies also weakened. The break in the exchange market appears to have reflected a speculative demand for dollars based on anticipations of a lower Treasury gold price,[1/] and of the rise in the exchange value of the dollar that would result unless foreign official gold prices were correspondingly reduced. Though earlier denials had been ineffective, the speculative pressure on foreign currencies was somewhat relieved on Friday afternoon following the President's statement that he knew of no plan to reduce the gold price.

FOREIGN EXCHANGE RATES FOR LEADING CURRENCIES

(Noon rates in cents per unit)

	March 27	April 6	April 9	April 12
Sterling	488.53	490.72	489.24	489.89
French franc	4.59 1/2	4.61 1/8	4.47 15/16	4.46 7/16
Guilder	54.74 5/8	54.75 5/16	54.64 3/8	54.71 3/4
Swiss franc	22.78 1/2	22.81 3/4	22.72 1/8	22.74 7/16
Belga	16.83 7/8	16.85 7/16	16.82 5/16	16.84 5/8

A combination of factors lent plausibility to the rumor that the American gold price was about to be lowered. In the latter part of March it became known that substantial amounts of Russian gold were being

1/A reduction in the present $35.00 price could be effected without Congressional action. The Gold Reserve Act provides that the Secretary of the Treasury may sell gold and, with the approval of the President, purchase gold in any amounts, at home or abroad, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest.

shipped to the United States through England, and it was reported that aggregate Russian sales would amount to $200,000,000. These shipments were particularly large during the first week of April when sterling was rising against the dollar. Not only did the British Fund fail to purchase the Russian gold in order to prevent the rise in sterling, but substantial sales of gold were made in the market by "special quarters" -- usually considered to be the Fund -- thus creating the impression that the British authorities were extremely reluctant to increase their gold holdings further. The market realized that if this were the case the only ready buyer would be the United States. Adoption of the gold sterilization policy last December, however; the subsequent discussion of proposals to curtail the unwelcome inflow of foreign capital and gold; and the President's recent statement that certain commodity prices were too high, lent support to the view that the attitude of the United States Treasury might be similar to that of the British. Another report appearing at the same time that Russian gold reserves now amount to nearly $7,000,000,000 added to the nervousness of the market. It suggested that the U.S.S.R. might endeavor to unload such enormous amounts of gold on this country as to force a change in the United States buying policy. The figure was fantastic. Russian gold reserves can hardly be much in excess of $1,000,000,000.

The matter was brought to a head last week as the result of a technical situation created in the London bullion market when leading American banks, fearing that the Treasury's gold buying price might be reduced while gold was in transit, ceased to buy gold in London for shipment to the United States. Normally American competition for gold serves to prevent the London price from falling much below the point at which it is just profitable to undertake arbitrage transactions, but last week the London price fell substantially below this level. This development, by revealing that important financial interests thought a reduction in our gold price likely, strengthened the speculative demand for dollars. Moreover, the fact that the British did not at first buy gold in the market in order to support the price re-emphasized their reluctance to acquire more gold. On Friday and Saturday, when offerings of gold in the market were unusually large, perhaps reflecting sales by frightened hoarders, the British Fund stabilized the gold price by making extensive purchases. In the absence of private buying, therefore, it is probable that future declines in the London price will similarly be limited by official purchases of gold.

Through their influence on exchange speculation the developments last week in the bullion market were a factor in the exchange market. The extent to which rates fluctuated, however, reflected the policy or operating technique of the various stabilization funds. The British Fund narrowly limited the decline in sterling by substantial sales of dollars. The low point for sterling was less than one half of one percent below its quotation on April 6. The guilder and the Swiss franc were also held comparatively steady. The French Fund, on the other hand, permitted the franc to fall, virtually without interference, to a point more than 3 percent below last Tuesday's rate. On Friday afternoon the franc temporarily regained about a quarter of this decline, but weakened subsequently, and was quoted on Monday at not much above its previous low. It appears to be the French policy to allow the franc to fall with little interference, thus conserving the small gold holdings of the Fund. On the recovery movements the Fund steps in to buy foreign currencies and gold -- operations which, while they add to the Fund's reserves, prevent the franc from rising. This method of accumulating reserves will reach its limit if the franc is pushed down to 4.35 cents, the point at which the law compels the Fund to use such resources as are necessary to prevent the franc from declining further.